FitchRatings

FITCH AFFIRMS ECOPETROL'S FC & LC IDRS AT 'BBB'/'BBB+'; OUTLOOK STABLE

Fitch Ratings-Chicago-19 June 2015: Fitch Ratings has affirmed Ecopetrol S.A.'s local and foreign currency Issuer Default Ratings at 'BBB+' and 'BBB', respectively. Concurrently, Fitch has affirmed the company's national scale short and long-term ratings of 'F1+(col) and 'AAA(col). The Rating Outlook for all ratings is Stable. A complete list of ratings follows at the end of this release.

Ecopetrol's ratings reflect the close linkage with the Republic of Colombia (FC and LC IDRs of 'BBB' and 'BBB+', respectively), which currently owns 88.5% of the company. Ecopetrol's ratings also reflect its strong financial profile and improving production levels. Ecopetrol's recently revised growth strategy and associated capex plan are considered adequate for the company's credit quality and cash flow generation ability. Ecopetrol is expected to maintain a financial and credit profile consistent with the assigned rating.

KEY RATING DRIVERS

Linkage to Sovereign:

Ecopetrol's ratings are linked to the credit profile of the Republic of Colombia, which owns 88.5% of the company's total capital. The company generates approximately 10% to 15% of government revenues and is strategically important to the country given that it supplies virtually all liquids fuel demand in Colombia. The company also owns 100% of the country's refining capacity and is linked closely with the Colombian government through sporadically reliance upon the receipt of the price subsidies at the pump; the difference from selling fuel in the local market instead of the export market during periods of high international hydrocarbon prices.

Strong Financial Profile:

Ecopetrol maintains a strong financial profile with USD10.4 billion of EBITDA and USD16 billion of debt as of the latest 12 months (LTM) ended March 2015. This translates into a financial leverage ratio of approximately 1.6 times (x), representing an increase of nearly one full turn year-on-year. The company reported moderately high leverage when measured by total proven reserves to total debt, of approximately USD7.9 per barrel. Ecopetrol relatively sizable reserves, stable production levels and dominant domestic market share allow the company to generate consistently strong cash flows from operations and meet its obligations in a timely manner. Liquidity is adequate with USD4.2 billion of consolidated cash and equivalents as of March 31, 2015.

Improving Operating Metrics:

The company's operating metrics have been improving during recent years and are considered in line with the assigned rating category. Ecopetrol's reserve life stood at approximately 8.1 as of year-end 2014, which is considered moderately low for the rating category. The company's new growth strategy is expected to put lower pressure in the Reserve Replacement Ratio (RRR) required to maintain or improve reserve life. As of Dec. 31, 2014, Ecopetrol's average RRR was 146%.

The company's production has been relatively stable over the past few years and it averaged approximately 773 thousand barrels of oil equivalent per day (mboe/d) during the first quarter of 2015. Ecopetrol's reserves continue to grow and as of December 31, 2014 proved reserves (1P), net of royalties, stood at 2,084 million boe (+5.7% yoy). During the first quarter of 2015, the company's lifting cost decreased to USD7.6 per barrel from USD9.9 per barrel in 2014 due to Colombian Peso depreciation and negotiations with suppliers; three year average finding, and development (F&D) cost were approximately USD13 per barrel. Transportation costs were approximately USD5.13 per barrel during the first quarter of 2015.

Manageable Capex Plan:

Ecopetrol plans to finance its USD39 billion capital expenditure program for 2015-2020 using internal cash flow generation for the most part and debt issuances to a lesser extent. Although not currently envisioned by the company, a possible additional primary-equity offering might contribute modest additional funds to cover investments. These could increase Ecopetrol's total floating capital to as much as 20%. Due to the high dividend policy and projected capital expenditure plan, free cash flow (FCF) is expected to be under pressure in the foreseeable future. In addition, debt could continue rising, while leverage is expected to remain within the assigned rating category.

RATING SENSITIVITIES

A downgrade could occur following a downgrade of Colombia's sovereign ratings, a material and sustained increase in leverage beyond Fitch's expectations (e.g. above USD10 of debt per every barrel of proved reserves), weak operating performance resulting in a sustained production-to-reserves level below five years.

An upgrade could result from an upgrade of Colombia's ratings coupled with continued financial and strong operating performance; namely, maintaining or increasing the reserve life ratio as production grows.

LIQUIDITY AND DEBT STRUCTURE

Ecopetrol's historically sound balance sheet is expected to be under pressure due to the effect lower international oil prices are expected to have on its cash flow generation, coupled with higher financing needs to fund capex. Liquidity position is considered strong, as it is supported by its internal cash flow generation, cash on hand and manageable maturity schedule. As of March 2015, the company's consolidated cash and marketable securities amounted to USD4.2 billion, while its short term debt was USD1.5 billion and its consolidated financial debt amounted to USD16 billion. Ecopetrol also has benefited from equity issuances in the past.

Fitch has affirmed Ecopetrol's ratings as follows:

--Local currency Issuer Default Rating (IDR) at 'BBB+'; Outlook Stable;
--Foreign currency IDR at 'BBB'; Outlook Stable;
--Senior unsecured debt consisting of approximately US$7.2 billion of notes outstanding at 'BBB';
--National short-term rating at 'F1+(col)';
--National long-term rating at 'AAA(col)'; Outlook Stable;
--COP1 trillion issuance program at 'AAA(col)';
--COP3 trillion commercial paper program at 'F1+(col)'.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 28 May 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393